

Message Text

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PAGE 01 BEIRUT 03064 290805Z
ACTION EB-07

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C O N F I D E N T I A L BEIRUT 3064

DEPT ALSO PASS AID AND EXIMBANK

E.O. 11642: GDS
TAGS: ECON ECRE EFIN OTRA LE
SUBJ: EXIMBANK VISITORS MEET WITH MOHAMMED ATALLAH

REF: BEIRUT 3018

1. ON JUNE 25 I ACCOMPANIED VISITING EXIMBANK OFFICIALS MORAN, HAMMOND, AND DONEGAN TO CALL ON MOHAMMED ATALLAH, CHAIRMAN OF RECONSTRUCTION AND DEVELOPMENT BOARD. MORAN BEGAN BY GIVING HIS VERY PRELIMINARY IMPRESSIONS THAT GOVERNMENT HAD NOT BEEN WILLING TO TAKE NECESSARY FINANCIAL RISKS TO HELP PRIVATE SECTOR, AND THAT THERE MIGHT BE LITTLE ECONOMIC PROGRESS UNLESS GOVERNMENT PROVIDED ASSISTANCE.

2. ATALLAH SAID GOVERNMENT WAS WILLING TO TAKE RISKS, BUT WAS USING TACTICS DESIGNED TO ENSURE THAT MINIMUM AMOUNT OF PUBLIC MONEY WAS SPENT. HE SAID THERE WERE "TWO TUGS OF WAR" IN PROCESS: 1) BETWEEN GOVERNMENT AND BUSINESSMEN AND 2) BETWEEN GOVERNMENT AND BANKS:

--FIRST, BANKS HAD ABOUT LL ONE BILLION WHICH THEY WANTED TO LOAN DIRECTLY TO GOL RATHER THAN TO BUSINESSMEN.
CONFIDENTIAL

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PAGE 02 BEIRUT 03064 290805Z

--SECOND, BUSINESSMEN WERE STILL HOPING FOR WAR COMPENSATION AND IN EFFECT WANTED GOVERNMENT TO SIMPLY GIVE THEM MONEY. FOR EXAMPLE, OWNER OF PHOENICIA AND VENDOME HOTELS, NAJIB SALHA, HAD ASKED RECONSTRUCTION AND DEVELOPMENT BOARD FOR LONG-TERM LOAN OF LL 60 MILLION ON VERY SOFT TERMS TO REBUILD PHOENICIA. BOARD, HOWEVER, HAD TOLD SALHA THAT HE

SHOULD TURN FIRST TO PRIVATE BANKS TO DETERMINE WHAT THEY WOULD BE WILLING TO DO. THE GOVERNMENT COULD THEN DETERMINE IN WHAT WAY ITS ASSISTANCE MIGHT BE NEEDED.

3. GOL WAS RESISTING BOTH THESE TUGS OF WAR, ATALLAH CONTINUED, AND WANTED TO FORCE BUSINESSES AND BANKS TO NEGOTIATE TOGETHER TO TRY TO ARRIVE AT TERMS. GOL WOULD THEN "FILL IN GAP" BETWEEN WHAT BUSINESSMEN COULD AFFORD AND WHAT BANKS WOULD OFFER.

4. RECONSTRUCTION PLAN AND DOWNTOWN.

A. ATALLAH SAID RECONSTRUCTION PLAN WOULD CONSIST OF THREE GENERAL COMPONENTS: 1) RESTORATION OF SECURITY; 2) REPAIR OF PUBLIC SERVICES; AND 3) CREDIT FOR PRIVATE SECTOR. AT MOMENT BOARD WAS GIVING PRIORITY TO PUBLIC SERVICES: PORTS, ROADS, AIRPORT, HOUSING, AND TELECOMMUNICATIONS.

B. DOWNTOWN BEIRUT WAS "SPECIAL CHAPTER." BOARD HAD BEEN OBLIGED TO MAKE CLEAR THAT IT WAS "NOT ESTABLISHED TO REBUILD DOWNTOWN BEIRUT," BUT TO RESTORE ECONOMY. THUS BOARD CONSIDERED DOWNTOWN AS ONE ITEM IN REPAIR OF PUBLIC SERVICES. THIS POSITION HAD "EXTRICATED US FROM DOWNTOWN."

C. ATALLAH BELIEVED THAT, IN FACT, IT WOULD BE "TEN YEARS BEFORE WE START REBUILDING DOWNTOWN." HE THOUGHT
CONFIDENTIAL

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PAGE 03 BEIRUT 03064 290805Z

PRICE OF LAND THERE MIGHT RISE TO LL 50-60,000 PER SQUARE METER AND NOTED THAT ALREADY MINIMUM PRICE WAS LL 15,000 PER SQUARE METER. THROUGHOUT BEIRUT PRICE OF HIGH QUALITY APARTMENTS HAD AT LEAST DOUBLED, AND MINIMUM PRICE WAS NOW LL 2,000 PER SQUARE METER.

5. BOARD BUDGET AND STATISTICS.

A. COUNCIL OF MINISTERS HAS GIVEN RECONSTRUCTION AND DEVELOPMENT BOARD AUTHORITY TO BORROW LL 300 MILLION PER YEAR IN GOVERNMENT GUARANTEED FUNDS OVER NEXT THREE YEARS, ATALLAH SAID. TO BORROW MORE THAN THAT DURING THIS PERIOD, BOARD MUST ASK PARLIAMENT FOR PERMISSION. AFTER THREE YEARS, BOARD WILL HAVE AUTHORITY TO BORROW EACH YEAR, WITH GOVERNMENT GUARANTEE AND WITHOUT GOING TO PARLIAMENT, AMOUNT EQUAL TO 15 PERCENT OF TOTAL GOVERNMENT BUDGET.

B. DECREE-LAW WHICH ABOLISHED MINISTER OF PLANNING ALSO RESULTED IN DISBANDMENT OF ITS STATISTICS DIRECTORATE. NO NEW BODY HAD BEEN CREATED TO REPLACE DIRECTORATE, AND ECONOMIC DATA WERE THUS EVEN MORE DIFFICULT TO COMPILE THAN USUAL.

6. COMMENT: ATALLAH EXPRESSED GREAT INTEREST IN EXIMBANK'S
PROGRAMS. TEAM WILL BE SEEING HIM LATER THIS WEEK TO
DISCUSS THEM IN DEPTH.
PARKER

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